

**TREASURY RELEASES FINAL REPORT ON THE COMMUNITY REINVESTMENT ACT:
STUDY FINDS THAT CRA IS – AND WILL CONTINUE TO BE – AN IMPORTANT TOOL FOR
COMMUNITY LENDING UNDER THE GRAMM LEACH BLILEY ACT
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Today, the Treasury Department delivered its final report to Congress on the impact of the Gramm-Leach-Bliley Act (GLB Act) on the provision of services to America's communities under the Community Reinvestment Act (CRA). The report provides new evidence that CRA has had a positive and significant impact on bank and thrift home purchase and refinance lending to low- and moderate-income communities and individuals over the last several years. It also finds that CRA will continue to encourage federally insured depository institutions to serve the homeownership, small business, community development, and financial services needs of communities across the nation.

Treasury now submits the second of two reports required by the GLB Act, which contains preliminary findings about the likely effects of the GLB Act on the delivery of services under CRA. These findings are based upon industry interviews, an econometric analysis of factors affecting financial institutions' shares of CRA originations, and metropolitan-area case-studies, because quantitative data on the impact of the GLB Act is not likely to be available for several more years.

The study was co-authored by a team of experts including: Robert E. Litan, Vice President and Director of Economic Studies at The Brookings Institution, Nicolas Retsinas and Eric Belsky, Director and Executive Director, respectively, of the Joint Center for Housing Studies at Harvard University, and Gary Fauth, Paul Leonard and Maureen Kennedy, independent economic and housing experts. Treasury Department staff guided the study, and received input and advice from the federal banking regulators. Key findings of the report include the following.

- **Interviews with major financial institutions suggest that CRA performance will remain strong under the GLB Act.** While it is too soon to quantify the impact of the GLB Act on the CRA performance of the banking industry, the institutions interviewed – comprising some of the nation's largest financial institutions – stated that they intend to continue to meet the credit needs of low- and moderate-income communities and individuals. Some of the institutions indicated that the GLB Act requirement that firms have at least a satisfactory CRA rating to pursue new financial opportunities has increased their pressure to perform at the "outstanding" level.
- **The reporting provisions in the GLB Act are expected to lead to modestly higher compliance costs.** Nearly all of the traditional-banking institutions interviewed reported the disclosure and reporting provisions will likely increase their paperwork and staffing requirements in order to comply with the requirements. Most reported that the requirements would not affect the institution's level of CRA activity.
- **Metropolitan level statistical analysis demonstrates that CRA has had a favorable impact on home purchase lending to low- and moderate-income communities and individuals.** While recognizing that other variables, including economic conditions of local areas, play a key role in encouraging CRA lending, the statistical analysis demonstrates that CRA is a significant factor in providing credit for home purchase loans.
- **CRA lenders and their affiliates, adjusting for differences in product specialization, increased their home purchase lending to low- and moderate-income individuals and communities faster than independent non-bank lenders.** Even after netting out non-bank affiliates acquired after 1993, CRA lenders and their affiliates increased their prime home purchase lending by 9.0 percent and their subprime and manufactured housing lending by 79.6 percent while independent

non-bank lenders increased theirs by only 6.7 percent and 36.6 respectively. Had CRA lenders and their affiliates grown their prime and other lending at the slower rates of independent non-banks, they would have advanced about one-fifth fewer home purchase loans to low and moderate income individuals and communities.

- **Interviews with experts in Boston, Detroit, Denver, and Houston – metropolitan areas chosen for more in-depth analysis – provide further evidence that CRA has played a role in the expansion of lending to low- and moderate-income individuals in each of those regions.** Lenders, civic leaders, and public officials alike believe that CRA has made a substantial difference in the behavior of lending institutions and in credit flows to low- and moderate-income communities.